IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

79-336

GUARDIAN INDUSTRIES CORPORATION,
Petitioner,
vs.
PPG INDUSTRIES, INC.,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

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Petitioner respectfully prays that a Writ of Certiorari issue to review the Judgment of the United States Court of Appeals for the Sixth Circuit entered on May 4, 1979.

1. OPINIONS BELOW

The Opinion of the Court of Appeals for the Sixth Circuit is found in the Appendix to this Petition commencing at page 40. It is officially reported at 597 F2d 1090, and also at 202 USPQ 95.

A Petition for Re-hearing was filed, but was denied by an Order of the Court dated June 1, 1979 and found at page 56 of the Appendix. Such Order has not been officially reported.

The Opinion of the District Court is set forth in the Appendix commencing at page 15. It is official reported at 428 F Supp 789 and also at 196 USPQ 359.

II. JURISDICTION

The Judgment sought to be reviewed was entered on May 4, 1979. Petitioner filed a timely Petition for Re-hearing which was denied by an Order dated June 1, 1979.

This Court's jurisdiction is invoked under 28 USC 1254(1). Jurisdiction of the District Court was invoked under 28 USC 1338 because the case arose under the patent laws of the United States.

III. QUESTION PRESENTED

Where there is no express provision in a patent license regarding transfer of license rights in the event of a future merger of the licensee, does a federal common law rule that patent licenses are non-assignable, unless expressly agreed upon, pre-empt state corporate merger statutes providing that all rights and property of the constituent corporations shall be transferred to and vested in the corporate survivor of the merger by operation of law unless expressly precluded?

The District Court ruled that because there was no express prohibition against transfer by operation of law, the patent license rights were automatically transferred to the corporate survivor by operation of the state merger statutes. The Court of Appeals reversed, holding that because there was no express permission for transfer by operation of law, the license rights did not transfer, but instead terminated, due to federal common law.

IV. STATUTORY PROVISIONS INVOLVED

The pertinent sections of the Ohio and Delaware merger statutes and of the United States patent law are as follows:

Ohio Revised Code, Sec. 1701.81

(A) When such merger or consolidation becomes effective:

(4) The surviving or new corporation shall thereupon and thereafter possess all the rights, privileges, immunities, powers, franchises, and authority, as well of a public as of a private nature, of each of the constituent corporations; and all property of every description, and every interest therein, and all obligations, including subscriptions to shares, of or belonging to or due to each of the constituent corporations, shall thereafter be taken and deemed to be transferred to and vested in the surviving or new corporation without further act or deed; and title to any real estate, or any interest therein, vested in any of the constituent corporations shall not revert or in any way be impaired by reason of such merger or consolidation.

8 Del. C. Sec. 259(a)

(a) When any merger or consolidation shall have become effective under this chapter, for all purposes of the laws of this State the separate existence of all the constituent corporations, or of all such constituent corporations except the one into which the other or others of such constituent corporations have been merged, as the case may be, shall cease and the constituent corporations shall become a new corporation, or be merged into 1 of such corporations, as the case may be, possessing all the rights, privileges, powers and franchises as well of a public as of a private nature, and being subject to all the restrictions, disabilities and duties of each of such corporations so merged or consolidated; and all and singular, the rights, privileges, powers and franchises of each of said corporations, and all property, real, personal and mixed, and all debts due to any of said constituent corporations on whatever account, as well for stock subscriptions as all other things in action or belonging to each of such corporations shall be vested in the corporation surviving or resulting from

such merger or consolidation; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the surviving or resulting corporation as they were of the several and respective constituent corporations, and the title to any real estate vested by deed or otherwise, under the laws of this State, in any of such constituent corporations, shall not revert or be in any way impaired by reason of this chapter; . . .

Title 35, United States Code, Sec. 261

Subject to the provisions of this title, patents shall have the attributes of personal property. Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States. 35 USC 261.

V. STATEMENT OF THE CASE

A. Nature of Case and Proceedings Below

Respondent-PPG brought this patent infringement suit against Petitioner-Guardian charging that four furnaces used by Petitioner for tempering glass infringe upon eleven patents. Two of the patents resulted from development work done by Respondent-PPG Industries and the remaining nine patents resulted from development work done by Permaglass, Inc., an Ohio corporation. Subsequently, Permaglass merged into Petitioner-Guardian Industries Corporation, a Delaware corporation.

The District Court conducted a separate evidentiary hearing on Petitioner-Guardian's defense that it was licensed to use the eleven patents, and therefore was not an infringer, by virtue of (1) a 1964 patent license agreement between PPG and Permaglass, and (2) the subsequent statutory merger of Permaglass and Guardian in 1969. The Court found that, although the 1964 patent license contained general restrictions against assignment and transfer, there was no express or written agreement precluding transfer of rights by merger or by operation of law. Therefore, the Court held that the license rights of Permaglass passed to Guardian by operation of law pursuant to the applicable corporate merger statutes of Ohio and Delaware.[1]

The Court of Appeals for the Sixth Circuit reversed, holding that the assignability of a patent license is controlled by federal common law rather than by state corporate merger statutes, and therefore a license which did not contain an agreement expressly permitting transfer by operation of law terminates and does not transfer by merger pursuant to state merger statutes.

B. Statement of Facts

(1) The License Agreement

The 1964 Patent License Agreement had its origin in 1963 when Permaglass, a small, young company, developed a process for bending and tempering glass windows. Permaglass learned, however, that PPG had independently developed and was patenting a similar process. Concerned about the relative patent positions of the two companies, Permaglass initiated negotiations, resulting in a cross-license of their respective patent rights.

With regard to the PPG-owned patents (two of the

[1] An alternative license defense of Guardian, based on a 1969 license, was rejected by both the District Court and the Court of Appeals, and is not involved in this Petition.

eleven patents here in suit), Permaglass received a non-exclusive, royalty-free and "non-transferable" license which was "personal to Permaglass and non-assignable".[2] Furthermore, this license under the PPG patents was to terminate if "a majority of the voting stock of Permaglass shall at any time become owned or controlled directly or indirectly by a manufacturer of automobiles or fabricator of glass other than the present owners".[3]

With regard to the Permaglass-owned patents (nine of the eleven patents in suit), Permaglass reserved for itself a royalty-free license to use its own patents and technical data and granted to PPG the remaining rights therein. The license reserved by Permaglass was "non-transferable" and "for the benefit and use of Permaglass".[4] However, neither the termination clause nor the non-assignment clause which were applicable to the PPG patents applied to Permaglass' reserved rights in its own patents. Furthermore, Permaglass retained legal title and the right to control the prosecution in the Patent Office of its then still pending patent applications. The rights granted to PPG by Permaglass were non-assignable by PPG without Permaglass' consent, except to a successor of PPG's entire flat glass business.[5]

The license contained neither an express restriction against nor express authorization for another company succeeding to Permaglass' rights as a result of a statutory merger or by operation of law. Nor was there any provision for termination in such event.

[2] See Section 4.1 and 9.2 of the license, quoted in full in the Court of Appeals decision at pages 43-44 of the Appendix hereto.
[3] Section 11.2, Id. at page 44.
[4] Sections 3.1, 3.2, 3.3, Id. at page 43.
[5] Section 9.1, Id. at page 44.

The Distict Court, who heard the testimony of the license signatories from both PPG and Permaglass (both hostile to Guardian at the time of their testimony), found that although the parties could have specifically restricted the passage of the license rights pursuant to the state merger laws, they did not intend to do so.[6]

Furthermore, while the license is stated to be "personal to Permaglass", it makes no reference to specific employees or owners of Permaglass, or even that there were such individuals, whose personal participation or performance was critical or in any way relied upon by PPG. Accordingly, the District Court found that the license "was personal only insofar as the parties so designated it."

2. The Permaglass-Guardian Merger

Prior to the merger, Guardian purchased raw glass sheets and fabricated them into automotive windshields. Permaglass also purchased raw glass sheets, but fabricated automotive side and back windows as well as architectural glass products.

In 1969, Harold McMaster, Permaglass' president, learned that Guardian had announced plans to construct a raw glass producing facility that would have a capacity more than double Guardian's own glass-fabricating requirements. Because Permaglass was a raw glass-purchaser, McMaster approached Guardian and suggested that a merger of the two companies would benefit both, for it would reduce Guardian's need to locate customers for its excess raw glass and would make the merged company more competitive by making it able to offer a full line of products to the automotive industry. Thus, the product lines for the two companies complemented each other,

[6] District Court Opinion, Id. at 25.

with Guardian's sales being about $15,000,000 annually and Permaglass' about $10,000,000.

The Agreement of Merger of October 7, 1969 provided for the merger of Permaglass (an Ohio corporation) into Guardian (a Delaware corporation) pursuant to the applicable statutes of those two states. The merger qualified as a reorganization under Section 368(a)(1) A of the Internal Revenue Code. In accordance with state law, the merger agreement vested all of Permaglass' rights and property in Guardian, along with all of Permaglass' debts and liabilities. The Permaglass shareholders surrendered their stock, whereupon it was extinguished and converted into Guardian stock.

After the merger, Guardian continued to operate the same three furnaces which Permaglass had built, operated and patented. The license did not limit future construction of such furnaces, and Guardian did build one additional furnace in 1973. Guardian has neither sold furnaces to others nor transferred to others any of the rights of Permaglass which vested in Guardian by operation of the merger statute.

VI. REASONS FOR GRANTING THE WRIT

1. The Decision Below Conflicts with Applicable State Statutory Law Respecting the Vesting of All Property and Rights of Merging Corporations in the Corporate Survivor Unless Specifically Prohibited

The Permaglass-Guardian merger was made pursuant to the laws of Ohio and Delaware, the relevant portions of which are set forth in Section IV above. Guardian contends that these statutes provide for the automatic vesting (i.e., by operation of law) of the patent rights in issue to Guardian as the survivor of the merger.

As stated above, the license did not expressly preclude merger or transfer by operation of law. No cases have been found construing the effect on a statutory merger of express but general restrictions against assignment or transfer of patent license rights; this is a case of first impression in the patent law field. But several analogous cases have held that a shop right patent license[7] held by a constituent corporation vests in the corporate survivor of a statutory merger, notwithstanding that such patent licenses are normally held to be non-assignable, non-transferable and personal to the employer. *Wilson v J G Wilson Corp,* 241 F 494, 497 (ED Va 1917); *Papazian* v *American Steel & Wire,* 155 F Supp 111 (ND Ohio 1957); *Neon Signal Devices* v *Alpha-Claude Neon Corp,* 54 F2d 793 (WD Pa 1931). The *Neon Signal* case is particularly pertinent, though it involved a succession rather than a statutory merger, because the parties to the license here in issue selected Pennsylvania law as controlling. The Court there held that:

> "It may be conceded, under the authorities, that a shop right is a personal right, and does not pass by mere assignment; but on the other hand, it seems to be established law that a shop right can and will pass where there is a complete succession to the entire business and good will of the licensee." 54 F2d at 796.

In another Pennsylvania decision, the Supreme Court of that state ruled that transfers resulting from statutory mergers, being by operation of law, are not assignments or transfers within the normal meaning of those words.

[7] A shop right is an unwritten implied patent license from an employee-inventor to his employer, arising from the nature of his employment and the use of the employer's time and facilities to make the invention.

Commonwealth v *Willson Products,* 194 A2d 162, 166 (1963). The Court in *Willson* placed specific reliance on this Court's decision in *United States* v *Seattle First National Bank,* 321 US 583, 587-88 (1944), which held that the passage of rights pursuant to statutory merger is not an assignment, but a transfer by operation of law, notwithstanding the parties' voluntary act of merger.

The Pennsylvania Court also relied on other state court decisions holding that real estate leases containing express non-assignment clauses nevertheless vest in the survivor of a statutory merger. *Dodier* v *St Louis National Baseball Club,* 238 SW2d 321 (Mo en banc 1951); *Segal* v *Greater Valley Terminal Corp,* 83 NJ Super 120, 199 A2d 48 (Sup Ct, App Div 1964). The Court in *Segal* made these pertinent observations:

> "Implied covenants against transfer by operation of law are disfavored, and Courts are astute in finding ways to avoid even an express provision restricting transfer by operation of law." Id. at 50.
>
> * * *
>
> "To deny the benefit of a merging corporation's non-assignable contracts to the surviving corporation in a merger authorized by statute would sharply limit the utility of such statutes." Id. at 51.
>
> * * *
>
> "Plaintiff might have provided against a merger but did not do so." Id. at 52.

These decisions involve the same basic issue presented in this case; only the subject matter is different. But Petitioner submits there are no compelling reasons why patent rights should be treated differently than other corporate assets. These decisions should control the result here.

The decision below is contrary to the statutory law of Ohio and Delaware, and contrary to the expressly controlling law of Pennsylvania, requiring that the patent rights vest in Guardian in the absence of a specific contractual prohibition against transfer by merger or by operation of law.

2. The Decision Below Conflicts with the Decisions of this Court as to the Legitimate Role of State Law in Commercial Transactions Involving Patents

The decision below emasculates the settled law of the three interested states that *all* property and rights of constituent corporations shall vest in the corporate survivor of a statutory merger unless transfer thereof by merger or operation of law has been expressly precluded. The Court of Appeals' decision that state corporate law and policy governing succession to property rights in a statutory merger are pre-empted by an old federal common law rule conflicts with this Court's recent decision in *Aronson* v *Quick Point,* 99 S Ct 1096 (1979):

> "Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable; the states are free to regulate the use of such property in any manner not inconsistent with federal law [citations omitted]. In this as in other fields, the question of whether federal law pre-empts state law 'involves a consideration of whether that law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress' [citations omitted]. If it does not, state law governs". Id. at 1099.

Furthermore, this Court recently observed that the mere fact that the scope of the federal right (here, the substantive rights granted by the patent) is a federal question does

not make state law irrelevant. *Burks* v *Lasker,* 99 S Ct 1831, 1837 (1979). "Corporations are creatures of state law", and the federal courts are not authorized to replace corporate law "simply because a Plaintiff's cause of action is based upon a federal statute." Id.

Quick Point requires that we (1) define Congress' objectives underlying the patent statute and (2) determine whether the state merger statutes are an obstacle to the accomplishment of such objectives. *Quick Point* stated the objectives of the patent law:

> "First, patent law seeks to foster and reward inventions; second, it promotes disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public." 99 S Ct at 1099.[8]

None of these objectives is impaired by the state corporate merger policy requiring that all property and rights of the constituent corporation vest in the corporate survivor unless expressly precluded. Quite to the contrary, it is the *decision* below which impairs the objective of fostering and rewarding invention. The employees and shareholders of Permaglass are now subject to an injunction and damages for infringing their own patents (nine of the eleven in suit), notwithstanding the specifically reserved royalty-free right of continued use "for the benefit and use of Permaglass", merely because they initiated and

[8] Interestingly, this Court in *Quick Point* referred in this discussion to its earlier decision in *Kewanee Oil* v. *Bicron,* 416 US 470 (1974) wherein it had reversed another Sixth Circuit Court of Appeals decision that the federal patent law pre-empted Ohio's law of trade secrets. In the present case, that Court has pre-empted Ohio's corporate merger statute, as well as that of Delaware.

approved a merger with Guardian pursuant to the laws of their state of incorporation. Simultaneously, PPG is permitted to keep the rights it received, while extinguishing the sole consideration paid to Permaglass, namely, the license to Permaglass under the PPG patents and the rights reserved by Permaglass in its own patents.

Federal statutory law respecting transfer of patent rights does not require or justify the result reached below. The patent statute (35 USC 261 is reproduced in Section IV above) speaks of *assignment* of interests in patents; it places no restrictions on licensing of patents and it is silent about tranfers by operation of law. The passage of rights pursuant to statutory merger is not an assignment, but a transfer by operation of law, notwithstanding the parties' voluntary act of merger. *Seattle Bank,* supra.[9]

A patent is created by federal statute. A license under a patent is created by contract between private parties. Federal policy applicable to the former does not necessarily apply to the latter, which is a commercial transaction traditionally in "the domain of state law". *Quick Point,* supra.

The federal common law rule respecting assignment of patent licenses, relied upon by the Court below, is based primarily on nineteenth century cases which pre-dated (1) the above-quoted statutory declaration (new in the 1952 statute) that patents are personal property and (2) *Erie RR* v *Tompkins,* 304 US 64 (1938), and therefore involved no conscious choice between federal and state law.[10]

[9] The *Seattle Bank* decision of this Court reversed sub silentio the 1939 *Koppers* decision of the Third Circuit relied upon by the Court below.

[10] The lack of any compelling policy reasons for federal pre-emption of state law respecting transfer of contract rights in patents and the absence of a reasoned basis for the old federal common law rule were thoroughly analyzed by Justice Traynor in *Farmland Irrigation Company* vs. *Dopplmaier,* 308 P.2d. 732 (1957).

Petitioner submits that state statutory law, rather than an outdated and unrealistic federal common law rule, should control this transaction.

VII. CONCLUSION

For these reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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UNITED STATES DISTRICT COURT
FOR THE
NORTHERN DISTRICT OF OHIO,
WESTERN DIVISION

PPG INDUSTRIES, INC.
v.
GUARDIAN INDUSTRIES CORP.

Civil Action
File No. 72-71

JUDGMENT

This action came on for trial before the Court, Honorable NICHOLAS J. WALINSKI, United States District Judge, presiding, and the issues having been duly tried and a decision having been duly rendered,

It is Ordered and Adjudged that the plaintiff take nothing, that the action be dismissed on the merits and that the defendant, Guardian Industries Corp. recover of the plaintiff, PPG Industries, Inc. his costs of action.

/s/ NICHOLAS J. WALINSKI
United States District Judge

Filed, January 26, 1977.

Dated at Toledo, Ohio, this 26th day of January, 1977.

/s/ MARK SCHLACHET
Clerk of Court
/s/ P. L. KURSCHAT
Deputy Clerk

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
WESTERN DIVISION

PPG INDUSTRIES, INC.,
Plaintiff,
-vs- No. C 72-71
GUARDIAN INDUSTRIES CORP.,
Defendant.

OPINION and ORDER

WALINSKI, J:

PPG Industries, Inc. [hereafter PPG] brought this action charging Guardian Industries Corporation [hereafter Guardian] with infringement upon eleven of its patents. Two of the patents, Nos. 3,223,501 and 3,293,015, originated as the result of development work carried out at PPG. The remaining nine patents, Nos. 3,281,229, 3,282,447, 3,291,590, 3,332,759, 3,332,760, 3,332,762, 3,338,697, 3,399,042, and 3,402,036 originated as the result of development work carried out at Permaglass, Inc. [hereafter Permaglass], a corporation which merged into Guardian in 1969.

Guardian has raised the defenses of license, patent invalidity and non-infringement. Because resolution of the license defense in Guardian's favor would be dispositive of some or all of the patents in suit and would thus eliminate the need for trial on the validity and infringement issues, the Court ordered an evidentiary hearing limited to the license defense. Fed. R. Civ. P. 42(b). *See generally* 5 J. Moore, *Federal Practice* ¶42.03 (2d ed. 1976). Trial on this issue was had before the Court on August 8 and 9, 1976. Post-trial briefs have been submitted and the matter is now ripe for determination. As authorized by Rule 52(a), the Court's findings of fact and conclusions of law will be set forth in the memorandum which follows.

I.

Guardian's two-pronged license defense is based on two separate agreements entered into by PPG and Permaglass in 1964 and 1969. The first prong of Guardian's defense is based on the 1964 agreement. In that agreement Permaglass was granted a "non-exclusive, non-transferable" license to use the patents in suit. Guardian argues that as a result of the 1969 statutory merger of Permaglass into Guardian it succeeded to these license rights notwithstanding the transferability restriction contained therein. Before discussing the merits of Guardian's 1964 license defense it will be helpful to briefly set forth the facts surrounding both the 1964 license agreement and the 1969 merger.

Permaglass was an Ohio corporation founded in 1948 by Harold A. McMaster. Initially Permaglass' business was limited to the tempering of flat glass pieces used in the appliance and automotive industries. Subsequently, McMaster and others employed at Permaglass began working on the "gas hearth" or "air float" process. In this process glass is supported on a bed of hot air while being bent and tempered.

In 1963, after completing experimental work, Permaglass constructed its first gas hearth line in Millbury, Ohio. Production on this line began in August of 1963. At about the same time Permaglass discovered that PPG had also been working, independently, on this same technology.

Permaglass then entered into discussions with PPG in an effort to determine where it stood in relation to PPG's patent position. Ensuing negotiations resulted in the January 1, 1964 license agreement.

In the 1964 agreement Permaglass granted to PPG an "unlimited exclusive license, with right of sublicense" to use its patents and technical data. § 3.2. From this grant, however, Permaglass reserved a "non-exclusive, non-transferable, royalty-free, world-wide right and license" for its own use. § 3.3. The license so reserved was to be "personal" and non-assignable. § 9.2. This reserved license applies to nine of the eleven patents in suit.

In return for receiving the licenses described above, PPG granted Permaglass a "non-exclusive, non-transferable, royalty-free right and license" to use PPG gas hearth patents. § 4.1. This license was also "personal" and "non-assignable except with the consent of PPG first obtained in writing." § 9.2. Moreover, the license under the PPG patents was to terminate in the event that a majority of the voting stock of Permaglass at any time became owned or controlled by another manufacturer or fabricator of glass. § 11.2. This license, and the termination clause applicable thereto, applies to only two of the eleven patents in suit.

In 1969, Harold McMaster, then President of Permaglass, learned that Guardian had announced plans to construct its own raw glass-producing facility and that the facility's proposed output would exceed Guardian's needs. He then approached Edward Sczesny, Director of Engineering and Corporate Planning at Guardian and suggested that a merger of Permaglass and Guardian would benefit both corporations.

At the time of the merger Guardian was primarily a manufacturer of windshields for the automotive industry. Some of these windshields were sold directly to bus and truck manufacturers for use as original equipment. The remaining windshields were sold through a national distribution complex. Guardian's sales approximated 15 million dollars annually.

Permaglass was a manufacturer of architectural glass and tempered glass for automobile back and side windows. It did not manufacture its own raw glass. Permaglass' annual sales approximated 10 million dollars.

The raw glass-producing facility that Guardian planned to construct was expected to generate 20 million dollars in sales. Guardian's needs, however, amounted to about 8 million and an outlet for the remaining raw glass was needed. Because Permaglass was a raw glass purchaser the proposed merger would reduce Guardian's need to locate consumers for its excess raw glass.

A merger of Guardian and Permaglass would also make the resulting company more competitive in the original equipment market. Automobile manufacturers prefer to purchase their glass needs from a company that produces glass for the entire vehicle. The merger would create an organization capable of producing windshields as well as back and side windows.

Subsequent negotiations between the two corporations resulted in an Agreement of Merger, executed on October 7, 1969, pursuant to which Permaglass was merged into Guardian. Permaglass shareholders surrendered their shares and received shares of Guardian in return and the separate corporate existence of Permaglass ceased.

After the merger Guardian continued to operate the

furnace units that had been constructed and operated by Permaglass. Guardian did, however, construct one additional furnace unit at its Carleton, Michigan Plant in 1973.

Because Permaglass was an Ohio corporation and Guardian a Delaware corporation, the merger was consummated in accordance with the laws of the respective states. Both states authorize a merger of a domestic corporation with a foreign corporation. Ohio Revised Code § 1701.82; 8 Del. C. § 252(a). Section 1701.83(B) (3), Ohio Revised Code, provides that the effect of the merger shall be the same as in the case of a merger or consolidation of domestic corporations "except in so far as the laws of such other state otherwise provide.[1]

Section 1701.81(A) (4) provides that when the merger becomes effective the surviving corporation shall possess all the "property of every description, and every interest therein." Delaware law is substantially the same. 8 Del. C. § 259(a). It provides that when the merger shall have become effective "all property, rights, privileges, powers and franchises, and all and every other interest" of the constituent corporation "shall be thereafter as effectually the property of the surviving or resulting corporation as they were of the several and respective constituent corporations." Property passing from the constituent corporation to the surviving corporations passes by operation of law. *See Levitt* v *Bouvier,* 287 A. 2d 671, 673 (Del. 1972); *Bokat* v *Getty Oil Co.,* 262 A. 2d 246, 249 (Del. 1970); *Heit* v *Tenneco, Inc.,* 319 F. Supp. 884, 887 (D. Del. 1970).

It is Guardian's contention that Permaglass' 1964 license

[1] The Ohio and Delaware statutes applicable to a merger of a foreign and a domestic corporation are more fully set out in the Appendix to this Opinion.

rights passed to Guardian pursuant to the statutory merger. Its argument continues that property which passes from a constituent corporation to the surviving corporation in a statutory merger passes not by assignment or transfer, but by operation of law. Thus, argues Guardian, the transferability and assignability restrictions contained in the 1964 agreement were not violated.

Neither the parties nor the Court have been able to discover a case that is on all fours with the facts involved in this suit. Guardian, however, has offered a number of cases which it argues, by analogy, support its position.

As a general rule, patent licenses are personal to the licensee and non-assignable unless expressly made so in the agreement. *Hapgood* v *Hewitt,* 119 U.S. 226 (1886); *Unarco Industries, Inc.* v *Kelley Co., Inc.,* 465 F. 2d 1303 (7th Cir. 1972), *cert. denied,* 410 U.S. 929 (1973); *Rock-Ola Mfg. Corp.* v *Filben Mfg. Co.,* 168 F.2d 919 (8th Cir), *cert. denied,* 335 U.S. 892 (1948). *See generally* 4 A. Deller, *Walker on Patents* ¶ 409 (2d ed. 1965). *Contra, Farmland Irrigation Co.* v *Dopplemaier,* 308 P. 2d 732 (Cal. 1957). Similarly, a shop right, an implied license, is also personal and non-assignable. *Lane & Bodley Co.* v *Locke,* 150 U.S. 193 (1893); *Hapgood* v *Hewitt,* 119 U.S. (1886). Yet in spite of this restriction it has been held that non-assignable licenses will pass from constituent corporations to a new corporation formed by the consolidation of those corporations. *Lightner* v *Boston & A. R. Co.,* 15 F. Cas. 514 (No. 8343) (C.C.D. Mass. 1869). And it has also been held that non-assignable shop rights will pass from a constituent corporation via merger to the surviving corporation. *Papazian* v *American Steel and Wire Company of New Jersey,* 155 F. Supp. 111 (N.D. Ohio 1957); *Neon Signal*

Devices, Inc. v *Alpha Claude Neon Corp.*, 54 F.2d 793 (W.D. Pa. 1931).[2]

In the major premise of its argument Guardian analogizes the expressly non-transferable and non-assignable license in this case to the non-assignable by implication license and shop rights involved in the cases cited above. Guardian then argues that just as the non-assignability restrictions in the shop rights and licenses referred to above do not prevent their passage to a successor through a merger, so should the express restriction contained in the 1964 license agreement not prevent Guardian from succeeding to Permaglass' rights thereunder.

While persuasive, Guardian's argument can be no stronger than the analogy upon which it is based. Whatever weaknesses exist can be pointed up by reviewing the facts of the cases upon which the defendant relies.

In *Lightner* v *Boston & A. R. Co.*, 15 F. Cas. 514 (No. 8343) (C.C.D. Mass. 1869), *cited with approval in Lane & Bodley Co.* v *Locke*, 150 U.S. 193, 196 (1893), the court held that a corporation resulting from the consolidation of two corporations succeeded to the license rights of the constituent corporations. A number of factors not present in this case led the court to so conclude. In that case the plaintiff had licensed both of the constituent corporations to use the patents in suit so that the use of the patents was not changed. Additionally, the license contained no express re-

[2] *See Lane & Bodley Co.* v. *Locke*, 150 U.S. 193 (1893), where the court held that a non-assignable shop right would pass to the successor of the entire business of the licensee. The case did not, however, involve a merger or consolidation of two or more corporations. *See also Gate-Way, Inc.* v. *Hillgren*, 82 F. Supp. 546 (S.D. Cal. 1949), *aff'd*, 181 F.2d 1010 (9th Cir. 1950); *Wilson* v. *J. G. Wilson Corporation*, 241 F. 494 (E.D. Va. 1917); 66 A.L.R. 2d 606 (1959), and the cases cited therein.

strictions on transferability. The court did note, however, that ordinarily a license is not transferable thereby recognizing the distinction between a simple assignment or transfer and succession by merger or consolidation.

Both the *Papazian* and *Neon* cases involved shop rights, a form of license which arises by implication. As a general rule, shop rights are personal and non-assignable but will pass to the surviving corporation in a merger or the resulting corporation in a consolidation. The major difference between the non-assignable features of a shop right and the license involved herein is that the license involved in this case contains an express rather than an implied restriction on transferability.

Guardian has also cited a number of cases holding that non-transferable, non-assignable leases will pass to a successor corporation via merger in spite of the restrictions on transferability. *Bangert* v *Boise Cascade*, No. 74-211c (4) (E.D. Mo. 1975), *aff'd on other grounds*, 527 F.2d 902 (8th Cir. 1976); *Dodier Realty* v *St. Louis National Baseball Club*, 238 S.W. 2d 321 (Mo. 1951); *Segal* v *Greater Valley Terminal Corp.*, 199 A. 2d 48 (Sup. Ct. App. Div. N.J. 1964); *Pittsburgh Terminal Coal Corp.* v *Potts*, 92 Pa. Super. 1 (1927). These cases so hold on the theory that the surviving corporation in a statutory merger is a successor rather than an assignee, and that the surviving corporation obtains the property of the constituent corporation by operation of law. *Cf. United States* v *Seattle-First National Bank*, 321 U.S. 583 (1944).

PPG attempts to distinguish these cases by noting that they involved leases rather than personal rights. However, the 1964 license agreement between Permaglass and PPG did not call for the performance of any duties that were of

a purely personal nature as that term is understood in cases involving the question of contract assignability. *See generally* 4 A. Corbin, *Contracts* § 865 *et seq.* (1951). The 1964 license agreement was personal only insofar as the parties so designated it.

PPG has cited *Columbus & Southern Ohio Electric Co.* v *West,* 140 Ohio St. 200 (1942), in support of its argument that the 1964 license agreement did not survive the merger of Permaglass into Guardian. PPG's reliance on that case, however, is misplaced.

In that case the court was faced with the question of whether a resulting corporation was required to register and pay the license fees on motor vehicles obtained from its constituent corporations where the constituent corporations had already registered the vehicles and paid the license fees for that year. The resulting corporation argued that it succeeded to the licenses by operation of the statutory merger. The court did not agree, ruling strictly on the basis of the registration statute and principles of statutory construction:

> But it would, we hold, be a forced construction to interpret these general provisions [referring to what is now § 1701.82 and the other merger statutes] as controlling the sharp and explicit clauses of Section 6294-1 * * *. Before these explicit statutory provisions of Section 6294-1, the general statutory provisions of Section 8623-68 must give way.

Columbus & Southern Ohio Electric Co. v *West,* 140 Ohio St. 2d 200, 204 (1942).

Guardian does not appear to contend that the applicable merger statutes would override an express prohibition re-

stricting the passage of license rights to a successor corporation through a statutory merger. Indeed it seems clear that the parties to the license agreement could have expressly provided that the rights created thereunder would not pass to a successor corporation through merger and that such a restriction would achieve its purpose. In *Western Air Lines, Inc.* v *Allegheny Airlines, Inc.,* 313 A. 2d 145 (Del. Ch. 1973), the court observed in dicta that:

> even if the Delaware statute obligates the successor corporation in a merger situation to assume the obligations of a predecessor, *contractual obligations would not pass if the parties by their objective contractual language contemplated that such obligation would not pass.*

Id. at 152-53 *(emphasis added). See Segal* v *Greater Valley Terminal Corp.,* 199 A. 2d at 52. Recognizing that PPG had the power to restrict the passage of the license rights via merger, the Court need only determine whether by providing that the license reserved by Permaglass was to be personal, non-transferable and non-assignable, the parties also intended that it would not pass to a successor corporation. The Court finds that they did not so intend.

At the outset it is important to note that both parties to the 1964 license agreement were represented by experienced attorneys and that the agreement was not drafted by laymen. The parties also provided that the agreement was to be "construed in accordance with the laws of the Commonwealth of Pennsylvania." Finally, the parties agreed that the:

> writing constitutes the entire Agreement between the parties hereto and there are no understandings, representations or warranties of any kind with re-

spect thereto other than as expressly set forth herein. § 8.3.

In Pennsylvania, as in other states, the courts distinguish between an assignment of property and an acquisition of corporate property by a successor corporation through merger. *Pittsburgh Terminal Coal Corp.* v *Potts*, 92 Pa. Super. 1 (1927). A corporation which acquires the property of its constituent corporations through merger or consolidation is termed a successor corporation and it does not acquire the property by assignment. It acquires the property by operation of law. *Id. See Segal* v *Greater Valley Terminal Corp.*, 199 A. 2d 48 (Sup. Ct. App. Div. N.J. 1964); *In re Murray Realty Co.*, 35 F. Supp. 417, 419 (N.D. N.Y. 1940).

An interpretation that the restrictions in the 1964 license agreement were not breached by the statutory merger in this case is consistent with the realities of a corporate merger. Permaglass was never fully divested of its interest in the 1964 license agreement as it would have been had there been an assignment or transfer to a separate corporate entity. Permaglass as a corporate enterprise continues to exist. "A merger ordinarily contemplates the continuance of the enterprise and of the stockholder's investment therein, though in altered form." *Sterling* v *Mayflower Hotel Corp.*, 93 A. 2d 107, 112 (Del. 1952); *Vulcan Materials Company* v *United States*, 446 F.2d 690 (5th Cir.), *cert. denied*, 404 U.S. 942 (1971).

It is this continuity of interest inherent in a statutory merger that distinguishes it from the ordinary assignment or transfer case. Different policy considerations are involved and they justify different treatment. *See generally* 15 W. Fletcher, *Cyclopedia of Corporations* § 7086 *et seq.*

(Perm. ed. 1973). On this point the court in *Segal* v *Greater Valley Terminal Corp., supra,* observed:

> One who deals with a corporation must realize that the beneficial ownership of that corporation can be changed at any time. Merger is only one of the ways in which that change may be made. To deny the benefit of a merging corporation's non-assignable contracts to the surviving corporation in a merger authorized by statute would sharply limit the utility of such statutes.

199 A. 2d at 51.

Because the parties failed to provide that Permaglass' rights under the 1964 license agreement would not pass to the corporation surviving a merger, the Court finds that Guardian succeeded to Permaglass' license pursuant to 8 Del. C. § 259, and Ohio Revised Code §§ 1701.81 and 1701.83.

What the Court has said above applies to both the nine reserved Permaglass patents and to the two PPG patents in suit. As to the two PPG patents the Court must now consider whether the merger operated as a termination under § 11.2 of the 1964 license agreement.

That section applicable only to two of the patents in suit provides:

> 11.2 In the event that a majority of the voting stock of PERMAGLASS shall at any time become owned or controlled directly or indirectly by a manufacturer of automobiles or a manufacturer or fabricator of glass other than the present owners, the license granted to PERMAGLASS under Subsection 4.1 shall terminate forthwith.

PPG argues that pursuant to the merger all of the voting stock of Permaglass became "owned or controlled"

by Guardian, a "manufacturer or fabricator of glass." That Guardian is a "manufacturer or fabricator of glass" is clear. Tr. 70-73. The Court must decide only whether pursuant to the statutory merger Guardian became the owner or controller of a majority of the voting shares of Permaglass.

Guardian asserts that the merger was really a corporate reorganization and not a stock acquisition in violation of the termination clause. The Court agrees.

Pursuant to the terms of the merger agreement ¶ 9, each share of Permaglass was converted into a prorata share of Guardian stock. After the Permaglass shareholders received the Guardian shares in exchange, the Permaglass shares ceased to represent ownership in either Permaglass or its successor Guardian. The Permaglass shareholders' investment in Permaglass, however, continued, although in altered form. *Sterling* v *Mayflower Hotel Corp., supra.* Thus, the voting stock of Permaglass did not, in a real sense, become owned or controlled by Guardian. This result follows from the nature of a statutory merger in contrast to an outright sale or acquisition of stock.

Accordingly, the Court finds that Guardian is licensed to use the patents in suit, and that this action should be dismissed on the merits.

II.

Guardian also argues that under the February 24, 1969 "Exclusive License Agreement" it is licensed to use the four furnace units which are alleged to infringe the eleven patents in suit; viz, the Millbury No. 1 and No. 2 units, the Torrance furnace unit and the Carleton furnace unit. This license expressly provided that it was not "assignable by PERMAGLASS, except to a successor of its entire business." It is thus clear that Guardian succeeded to whatever rights Permaglass had under this agreement, and that the only question to be decided is whether the agreement granted Permaglass a license to use the four furnace units described above. Before examining the terms of the agreement itself, it would be helpful to review, briefly, the facts which led to its execution.

The inventions connected with the 1964 agreement discussed *supra* involved the gas hearth process. That process was effective only for the manufacture of flat or cylindrical-shaped pieces of glass. Permaglass, however, was faced with a demand for making larger pieces of glass of irregular shape. In fact, one of Permaglass' "customers wanted a back lite [automobile rear window] which had a W-shape, horizontal cross section." Tr. 156-157. At that time Permaglass was not aware of any way that such a piece could be manufactured and so it "launched a development project which resulted in the construction of the Millbury No. 2 line." *Id.*

The Millbury No. 2 line used a gas hearth system to heat the flat glass pieces. However, it also incorporated a mechanical air forming tool which was used to form the irregularly-shaped pieces of glass referred to above.

PPG subsequently learned of this new development and negotiated with Permaglass which resulted in the 1969 agreement hereunder discussed.

That agreement is an integrated contract, § 8.3, and the Court will not consider any evidence of antecedent understandings and negotiations introduced for the purpose of varying or contradicting the express written provisions of the agreement.

In § 4.8 of the agreement, PPG granted Permaglass:

> a royalty-free, non-exclusive license under the PERMAGLASS Licensed Patents and the PERMAGLASS Technical Data authorizing PERMAGLASS to construct for its own use and to use Licensed Furnace Units.

It is thus immediately apparent that Guardian's characterization of the agreement as a license to use Licensed Furnace Units is misleading. It is a license "under Permaglass Licensed Patents and Permaglass Technical Data" to use Licensed Furnace Units.

In § 1 of the agreement the terms used in the § 4.8 license were carefully defined as follows:

> 1.1 "Gas Hearth Systems" shall mean any method, machine, manufacture or composition of matter covered by any claim or claims of any of the PPG patents and/or PERMAGLASS patents included in the Agreement between PPG and PERMAGLASS dated January 1, 1964, or included in any of the "PERMAGLASS Technical Data" as defined in Section 1.5 of said January 1, 1964 Agreement.
>
> 1.5 "Millbury No. 2 Unit" means the horizontal bending and tempering unit which has been constructed by PERMAGLASS at its Millbury, Ohio facility and which incorporates a Gas Hearth System and also the features covered by the United States patent applications listed in Schedule A hereof.
>
> 1.6 "PERMAGLASS Licensed Patents" means the United States patent applications listed in Schedule A hereof, any patents issuing on said applications or on any divisions or continuations thereof, any reissues of any of said patents, any and all foreign

> patent applications and patents corresponding to any of said United States patent applications or patents, and any and all other patent applications and patents, United States or foreign, which are now or hereafter owned by PERMAGLASS and which cover any feature or features of, or any method practiced by the use of the Millbury No. 2 Unit or any unit of the same or substantially similar design which is constructed by or under technical supervision of PERMAGLASS for PPG prior to December 31, 1969.
>
> 1.7 "PERMAGLASS Technical Data" means any and all inventions, trade secrets, engineering data, drawings, designs and technical know-how relating to the construction and/or operation of the Millbury No. 2 Unit or any unit of the same or substantially similar design which is constructed by or under the technical supervision of PERMAGLASS for PPG prior to December 31, 1969, such information including, without limitation, all information desirable or necessary for duplication of the design, procurement, installation and operation of said unit or units.
>
> 1.8 "Licensed Furnace Units" means Gas Hearth Systems which embody, or are for the practice of, the inventions covered by the PERMAGLASS Licensed Patents and/or the PERMAGLASS Technical Data.

By condensing the essential elements from these definitions it can be seen that to qualify as a "Licensed Furnace Unit", the four furnace units alleged to infringe the eleven patents in suit must satisfy the following requirements:

> 1) They must incorporate "Gas Hearth Systems", § 1.1, *and* either 2 or 3 below;

2) They must embody or practice the patent applications listed in Schedule A *and* any and all other patents and patent applications owned by Permaglass [as of the date of 1969 agreement] which cover any feature of the Millbury No. 2 Unit, § 1.5, *supra.* § 1.6.

3) They must embody or practice the technical data relating to the Millbury No. 2 Unit, § 1.5, *supra.* § 1.7.

As the parties concede that the four furnace units embody "Gas Hearth Systems", they need only satisfy the requirements of ¶¶ 2 or 3 above.

Guardian concedes that neither the Millbury No. 1 nor the Carleton Furnace Units practice any of the Schedule A patents. See Defendant's Brief in Support of its License Defense at 7, 9, and 1969 License Chart. Thus, to qualify as a Licensed Furnace Unit those two units must embody the Permaglass Technical Data as that term is defined in § 1.7. That section, however, refers to various types of data which relate to the construction and/or operation of the Millbury No. 2 Unit.

The Millbury No. 2 Unit, in turn, is defined as the "horizontal bending and tempering unit which has been constructed by PERMAGLASS at its Millbury, Ohio facility and which incorporates a Gas Hearth System *and also the features covered by the United States patent applications listed in Schedule A hereof.*" § 1.5 *(emphasis added).* Because neither the Millbury No. 1 nor the Carleton Units embody or practice the Schedule A patents, they fail to qualify as Licensed Furnace Units.

The major flaw in Guardian's argument can be observed by examining the chart found on page 5 of its Brief in Support of its License Defense. Guardian asserts that "any

furnace which satisfies Paragraph (1) plus any one of either Paragraph 2(a) *or* 2(b) *or* (3) is a 'Licensed Furnace Unit' according to the 1969 Furnace License." Paragraphs 2(a) and 2(b) have been distilled from § 1.6 of the agreement.

The flaw in Guardian's argument is in its construction of § 1.6. That section defines Permaglass Licensed Patents as the patent applications listed in Schedule A AND (not *or*) any claim of any other Permaglass-owned patent covering any feature of the Millbury No. 2 Unit.

The Torrence Furnace Unit embodies a Gas Hearth System and one of the Schedule A patents. However, that furnace unit cannot qualify as a Licensed Furnace Unit by simply practicing one Schedule A patent. Both the definition of "Permaglass Licensed Patents" and Permaglass Technical Data" (which require compliance with the definition of "Millbury No. 2 Unit") require the embodiment or practice of the "patent application*s* listed in Schedule A."

The Millbury No. 2 line is the unit on which the Schedule A patents and technical data were first practiced. Were those patents and technical data still embodied in the Millbury No. 2 Unit it would, by definition, be a "Licensed Furnace Unit" immune from PPG's patent infringement action. However, subsequent to the execution of the 1969 agreement, the horizontal bending and tempering unit incorporating the features covered by the Schedule A patents was dismantled and the unit was operated without this feature for a period of years. Tr. 72-73. During this period, the Millbury No. 2 Unit did not qualify as a "Licensed Furnace Unit."

The Court's interpretation of the 1969 agreement as not

conferring a license to use the four furnace units discussed *supra* is bolstered by the absence of any indication that the parties intended to modify the license rights created in the 1964 agreement. The 1969 agreement itself provided in the preamble that PPG was desirous of obtaining all of Permaglass' rights in its "new and improved horizontal glass bending and tempering gas hearth system." The agreement said nothing about modifying the rights created in the 1964 agreement. Moreover, the parties who negotiated and signed the agreement testified that the 1969 agreement was not intended to modify the 1964 agreement. Tr. 158-59, 190-91. The Court, therefore, finds that the four furnace units alleged to infringe the patents in suit are not "Licensed Furnace Units" within the meaning of the 1969 agreement.

As noted above, Guardian has based its argument that it is licensed to use the eleven patents in suit on the two agreements discussed above. Each argument is independent of the other, and the Court's conclusion that Guardian is not licensed under the 1969 agreement does not affect the Court's determination that Guardian is licensed to use the patents in suit under the 1964 agreement.

For the foregoing reasons, it is accordingly

ORDERED that the action be dismissed on the merits, and that the Defendant Guardian recover of the Plaintiff PPG its cost of action.

/s/ NICHOLAS J. WALINSKI
United States District Judge

Toledo, Ohio.
January 25, 1977.

§ 252. *Merger or consolidation of domestic and foreign corporations; service of process upon surviving or resulting corporations.*

(a) Any 1 or more corporations of this State may merge or consolidate with 1 or more other corporations of any other state or states of the United States, or of the District of Columbia if the laws of the other state or states, or of the District permit a corporation of such jurisdiction to merge or consolidate with a corporation of another jurisdiction. The constituent corporations may merge into a single corporation, which may be any 1 of the constituent corporations, or they may consolidate into a new corporation formed by the consolidation, which may be a corporation of the state of incorporation of any 1 of the constituent corporations, pursuant to an agreement of merger or consolidation, as the case may be, complying and approved in accordance with this section. In addition, any 1 or more corporations organized under the laws of any jurisdiction other than 1 of the United States may merge or consolidate with 1 or more corporations existing under the laws of this State, if the surviving or resulting corporation will be a corporation of this State, and if the laws under which the other corporation or corporations are formed permit a corporation of such jurisdiction to merge or consolidate with a corporation of another jurisdiction.

* * *

§ 259. *Status, rights, liabilities, of constituent and surviving or resulting corporations following merger or consolidation.*

(a) When any merger or consolidation shall have become effective under this chapter, for all purposes of the laws of this State the separate existence of all the con-

stituent corporations, or of all such constituent corporations except the one into which the other or others of such constituent corporations have been merged, as the case may be, shall cease and the constituent corporations shall become a new corporation, or be merged into 1 of such corporations, as the case may be, possessing all the rights, privileges, powers and franchises as well of a public as of a private nature, and being subject to all the restrictions, disabilities and duties of each of such corporations so merged or consolidated; and all and singular, the rights, privileges, powers and franchises of each of said corporations, and all property, real, personal and mixed, and all debts due to any of said constituent corporations on whatever account, as well—for stock subscriptions as all other things in action or belonging to each of such corporations shall be vested in the corporation surviving or resulting from such merger or consolidation; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the surviving or resulting corporation as they were of the several and respective constituent corporations, and the title to any real estate vested by deed or otherwise, under the laws of this State, in any of such constituent corporations, shall not revert or be in any way impaired by reason of this chapter; but all rights of creditors and all liens upon any property of any of said constituent corporations shall be preserved unimpaired, and all debts, liabilities and duties of the respective constituent corporations shall thenceforth attach to said surviving or resulting corporation, and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it.

(b) In the case of a merger of banks or trust com-

panies, without any order or action on the part of any court or otherwise, all appointments, designations, and nominations, and all other rights and interests as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, trustee of estate of persons mentally ill and in every other fiduciary capacity, shall be automatically vested in the corporation resulting from or surviving such merger; provided, however, that any party in interest shall have the right to apply to an appropriate court or tribunal for a determination as to whether the surviving corporation shall continue to serve in the same fiduciary capacity as the merged corporation, or whether a new and different fiduciary should be appointed.

§ 1701.81 *Effect of merger.*

(A) When such merger or consolidation becomes effective:

(1) The separate existence of all the constituent corporations, except the surviving or new corporation, shall cease, except that, whenever a conveyance, assignment, transfer, deed, or other instrument, or act, is necessary to vest property or rights in the surviving or new corporation, the officers of the respective constituent corporations shall execute, acknowledge, and deliver such instruments, and do such acts, and for such purposes the existence of the constituent corporations and the authority of their respective officers and directors shall be deemed continued notwithstanding the merger or consolidation;

(2) The constituent corporations shall become a single corporation which, in the case of a merger, shall be that one of the constituent corporations designated in the agreement of merger as the surviving corporation and, in the case of a

consolidation, shall be the new corporation provided for in the agreement of consolidation;

(3) The surviving or new corporation shall have all the rights, privileges, immunities, powers, franchises, and authority and shall be subject to all the obligations of a corporation formed under sections 1701.01 to 1701.98, inclusive, of the Revised Code;

(4) The surviving or new corporation shall thereupon and thereafter possess all the rights, privileges, immunities, powers, franchises, and authority, as well of a public as of a private nature, of each of the constituent corporations; and all property of every description, and every interest therein, and all obligations, including subscriptions to shares, of or belonging to or due to each of the constitutent corporations, shall thereafter be taken and deemed to be transferred to and vested in the surviving or new corporation without further act or deed; and title to any real estate, or any interest therein, vested in any of the constituent corporations shall not revert or in any way be impaired by reason of such merger or consolidation;

(5) To the extent permitted by the laws of any other state in which any constituent corporation has property, the provisions of paragraph (4) of division (A) of this section apply in such state;

(6) The surviving or new corporation shall thenceforth be liable for all the obligations of each of the constituent corporations, including liability to dissenting shareholders; and any claim existing or action or proceeding pending by or against any of the constituent corporations may be prosecuted to judgment, with right of appeal as in other cases, as if such merger or consolidation had not taken

place, or the surviving or new corporation may be substituted in its place;

(7) All the rights of creditors of each constituent corporation shall be preserved unimpaired, and all liens upon the property of any of the constituent corporations shall be preserved unimpaired, limited in lien to the property affected by such liens immediately prior to the effective date of the merger or consolidation;

* * *

§ 1701.82 *Merger with foreign corporation.*

One or more domestic corporations may merge or consolidate with one or more foreign corporations in the following manner, if such merger or consolidation is permitted by the laws of each state under the laws of which any constituent foreign corporation exists:

* * *

§ 1701.83 *Effect of merger with foreign corporation.*

(A) Upon the filing of the agreement of merger or consolidation in compliance with the laws of each state under the laws of which any constituent corporation exists, or at such later date as the agreement specifies, the merger or consolidation shall become effective.

(B) The effect of such merger or consolidation, if the surviving or new corporation is to be a domestic corporation, shall be the same as in the case of the merger or consolidation of domestic corporations. If the surviving or new corporation is to be a foreign corporation:

(1) The surviving or new corporation shall thenceforth be liable for all the obligations of each of the constituent corporations, including liability to dissenting shareholders;

(2) All the rights of creditors of each constituent corporation shall be preserved unimpaired, and all liens upon

the property of any of the constituent corporations shall be preserved unimpaired, limited in lien to the property affected by such liens immediately prior to the effective date of the merger or consolidation;

(3) The effect of such merger or consolidation shall, in all other respects, be the same as in the case of the merger or consolidation of domestic corporations except in so far as the laws of such other state otherwise provide.

• • •

OFFICE OF THE CLERK
UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT
CINCINNATI, OHIO 45202

May 4, 1979

JOHN P. HEHMAN
Clerk

Mr. William H. Webb
Mr. John M. Webb
Mr. Robert B. Gosline
Mr. Bernard J. Cantor
Mr. Richard D. Grauer
Mr. David A. Katz
Mr. Brian Sullivan

Re: PPG Industries, Inc., v
Guardian Industries Corp.,
Case Nos. 77-3166-7
Dist. Ct. No. C72-71

Gentlemen:

The Court today announced its decision in the above-entitled cases.

A copy of the Court's opinion is enclosed, and a judgment in conformity with the opinion has been entered today as required by Rule 36, Federal Rules of Appellate Procedure.

Costs may be recovered by PPG as provided by Rule 39, Federal Rules of Appellate Procedure.

Very truly yours,
JOHN P. HEHMAN, Clerk
By: /s/ BETTY TIBBLES
(Mrs.) Betty Tibbles
Deputy Clerk

No. 77-3166
No. 77-3167

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CURCUIT

PPG Industries, Inc.,
Plaintiff-Appellant (77-3166),
Plaintiff-Appellee (77-3167),
v.
Guardian Industries Corporation,
Defendant-Appellee (77-3166),
Defendant-Appellant (77-3167).

Appeal from the United States Districe Court for the Northern District of Ohio.

Decided and Filed May 4, 1979.

Before: Lively, Keith and Merritt, Circuit Judges.

Lively, Circuit Judge. The question in this case is whether the surviving or resultant corporation in a statutory merger acquires patent license rights of the constituent corporations. The plaintiff, PPG Industries, Inc. (PPG), appeals from a judgment of the district court dismissing its patent infringement action on the ground that the defendant,

Guardian Industries, Corp. (Guardian), as licensee of the patents in suit, was not an infringer. Guardian cross-appeals from a holding by the district court that its alternate defense based on an equipment license agreement was ineffective. The district court opinion is reported at 428 F.Supp. 789 (N.D. Ohio 1977).

I

Prior to 1964 both PPG and Permaglass, Inc., were engaged in fabrication of glass products which required that sheets of glass be shaped for particular uses. Independtly of each other the two fabricators developed similar processes which involved "floating glass on a bed of gas, while it was being heated and bent." This process is known in the industry as "gas hearth technology" and "air float technology"; the two terms are interchangeable. After a period of negotiations PPG and Permaglass entered into an agree ment on January 1, 1964 whereby each granted rights to the other under "gas hearth system" patents already issued and in the process of prosecution. The purpose of the agreement was set forth in the preamble as follows:

> WHEREAS, PPG is desirous of acquiring from PERMAGLASS a world-wide exclusive license with right to sublicense others under PERMAGLASS Technical Data and PERMAGLASS Patent Rights, subject only to reservation by PERMAGLASS of non-exclusive rights thereunder; and
>
> WHEREAS, PERMAGLASS is desirous of obtaining a nonexclusive license to use Gas Hearth Systems under PPG Patent Rights, excepting in the Dominion of Canada.

This purpose was accomplished in the two sections of the agreement quoted below:

> SECTION 3. GRANT FROM PERMAGLASS TO PPG
>
> 3.1 Subject to the reservation set forth in Subsection 3.3 below, PERMAGLASS hereby grants to PPG an exclusive license, with right of sublicense, to use PERMAGLASS Technical Data in Gas Hearth Systems throughout the United States of America, its territories and possessions, and all countries of the world foreign thereto.
>
> 3.2 Subject to the reservation set forth in Subsection 3.3 below, PERMAGLASS hereby grants to PPG an unlimited exclusive license, with right of sublicense, under PERMAGLASS Patent Rights.
>
> 3.3 The licenses granted to PPG under Subsections 3.1 and 3.2 above shall be subject to the reservation of a non-exclusive, non-transferable, royalty-free, world-wide right and license for the benefit and use of PERMAGLASS.
>
> SECTION 4. GRANT FROM PPG TO PERMAGLASS
>
> 4.1 PPG hereby grants to PERMAGLASS a non-exclusive, non-transferable, royalty-free right and license to heat, bend, thermally temper and/or anneal glass using Gas Hearth Systems under PPG Patent Rights, excepting in the Dominion of Canada, and to use or sell glass articles produced thereby, but no license, express or implied, is hereby granted to PERMAGLASS under any claim of any PPG patent expressly covering any coating method, coating composition, or coated article.

Assignability of the agreement and of the license granted to Permaglass and termination of the license granted to Permaglass were covered in the following language:

SECTION 9. ASSIGNABILITY

9.1 This Agreement shall be assignable by PPG to any successor of the entire flat glass business of PPG but shall otherwise be non-assignable except with the consent of PERMAGLASS first obtained in writing.

9.2 This Agreement and the license granted by PPG to PERMAGLASS hereunder shall be personal to PERMAGLASS and non-assignable except with the consent of PPG first obtained in writing.

SECTION 11. TERMINATION

11.2 In the event that a majority of the voting stock of PERMALASS shall at any time become owned or controlled directly or indirectly by a manufacturer of automobiles or a manufacturer or fabricator of glass other than the present owners, the license granted to PERMAGLASS under Subsection 4.1 shall terminate forthwith.

Eleven patents are involved in this suit. Nine of them originated with Permaglass and were licensed to PPG as exclusive licensee under Section 3.2, *supra*, subject to the non-exclusive, non-transferable reservation to Permaglass set forth in Section 3.3. Two of the patents originated with PPG. Section 4.1 granted a non-exclusive, non-transferable license to Permaglass with respect to the two PPG patents. In Section 9.1 and 9.2 assignability was treated somewhat differently as between the parties, and the Section 11.2 provisions with regard to termination apply only to the license granted to Permaglass.

As of December 1969 Permaglass was merged into Guardian pursuant to applicable statutes of Ohio and Delaware. Guardian was engaged primarily in the business of fabri-

cating and distributing windshields for automobiles and trucks. It had decided to construct a facility to manufacture raw glass and the capacity of that facility would be greater than its own requirements. Permaglass had no glass manufacturing capability and it was contemplated that its operations would utilize a large part of the excess output of the proposed Guardian facility.

The "Agreement of Merger" between Permaglass and Guardian did not refer specifically to the 1964 agreement between PPG and Permaglass. However, among Permaglass' representations in the agreement was the following:

> (g) Permaglass is the owner, assignee or licensee of such patents, trademarks, trade names and copyrights as are listed and described in Exhibit "C" attached hereto. None of such patents, trademarks, trade names or copyrights is in litigation and Permaglass has not received any notice of conflict with the asserted rights of third parties relative to the use thereof.

* * *

Listed on Exhibit "C" to the merger agreement are the nine patents originally developed by Permaglass and licensed to PPG under the 1964 agreement which are involved in this infringement action.

Shortly after the merger was consummated PPG filed the present action, claiming infringement by Guardian in the use of apparatus and processes described and claimed in eleven patents which were identified by number and origin. The eleven patents were covered by the terms of the 1964 agreement. PPG asserted that it became the exclusive licensee of the nine patents which originated with Permaglass under the 1964 agreement and that the rights reserved

by Permaglass were personal to it and non-transferable and non-assignable. PPG also claimed that Guardian had no rights with respect to the two patents which had originated with PPG because the license under these patents was personal to Permaglass and non-transferable and non-assignable except with the permission of PPG. In addition it claimed that the license with respect to these two patents had terminated under the provisions of Section 11.2 *supra,* by reason of the merger.

One of the defenses pled by Guardian in its answer was that it was a licensee of the patents in suit. It described the merger with Permaglass and claimed it "had succeeded to all rights, powers, ownerships, etc., of Permaglass, and as Permaglass' successor, defendant is legally entitled to operate in place of Permaglass under the January 1, 1964 agreement between Permaglass and plaintiff, free of any claim of infringement of the patents . . . ."

After holding an evidentiary hearing the district court concluded that the parties to the 1964 agreement did not intend that the rights reserved by Permaglass in its nine patents or the rights assigned to Permaglass in the two PPG patents would not pass to a successor corporation by way of merger. The court held that here had been no assignment or transfer of the rights by Permaglass, but rather that Guardian acquired these rights by operation of law under the merger statutes of Ohio and Delaware. The provisions of the 1964 agreement making the license rights of Permaglass non-assignable and non-transferable were held not to apply because of the "continuity of interest inherent in a statutory merger that distinguishes it from the ordinary assignment or transfer case." 428 F.Supp. at 796.

With respect to the termination provision in Section 11.2

of the 1964 agreement, the district court again relied on "the nature of a statutory merger in contrast to an outright sale or acquisition of stock" in holding that a majority of the voting stock of Permaglass did not become owned or controlled by Guardian. 428 F.Supp. at 796.

II

Questions with respect to the assignability of a patent license are controlled by federal law. It has long been held by federal courts that agreements granting patent licenses are personal and not assignable unless expressly made so. *Unarco Industries, Inc.* v. *Kelley Company,* 465 F.2d 1303, 1306 (7th Cir. 1972), *cert. denied,* 410 U.S. 929 (1973). This has been the rule at least since 1852 when the Supreme Court decided *Troy Iron & Nail* v. *Corning,* 55 U.S. (14 How.) 193 (1852). See Annotation, *Assignability of licensee's rights under patent licensing agreement.* 66 ALR2d 606. The district court recognized this rule in the present case, but concluded that where patent licenses are claimed to pass by operation of law to the resultant or surviving corporation in a statutory merger there has been no assignment or transfer.

There appear to be no reported cases where the precise issue in this case has been decided. At least two treatises contain the statement that rights under a patent license owned by a constituent corporation pass to the consolidated corporation in the case of a consolidation, *W. Fletcher, Cyclopedia of the Law of Corporations* § 7089 (revised ed. 1973); and to the new or resultant corporation in the case of a merger, *A. Deller, Walker on Patents* § 409 (2d ed. 1965). However, the cases cited in support of these statements by the commentators do not actually provide such support because their facts take them outside the general

rule of non-assignability. Both texts rely on the decision in *Hartford-Empire Co.* v. *Demuth Glass Works, Inc.,* 19 F.Supp. 626 (E.D. N.Y. 1937). The agreement involved in that case specified that the patent license was assignable and its assignability was not an issue. Clearly the statement in the *Hartford-Empire* opinion that the merger conveyed to the new corporation the patent licenses owned by the old corporation results from the fact that the licenses in question were expressly made assignable, not from any general principle that such licenses pass to the resultant corporation where there is a merger. It is also noteworthy that the surviving corporation following the merger in *Hartford-Empire* was the original licensee, whereas in the present case the original licensee was merged into Guardian, which was the survivor. Fletcher also cites *Lightner* v. *Boston & A.R. Co.,* 1 Low Dec. 338, Fed. Case No. 8343 (C.C. Mass. 1869). In that case both of the constituent corporations had been licensed by the patent holder. Thus, the reason for the rule against assignability was not present: the patent holder had selected both as licensees. There was also language in one of the licensing agreements involved in *Lightner* which indicated to the court that a consolidation was anticipated and that use of the patented mechanism by the consolidated corporation was authorized. Again, this decision does not indicate that the general rule of non-assignability of patent licenses does not apply in merger situations.

Guardian relies on two classes of cases where rights of a constituent corporation have been held to pass by merger to the resultant corporation even though such rights are not otherwise assignable or transferable. It points out that the courts have consistently held that "shop rights" do pass in a statutory merger. See *e.g., Papazian* v. *American Steel & Wire Co.,* 155 F.Supp. 111 (N.D. Ohio 1957); *Neon Signal Devices, Inc.* v. *Alpha-Claude Neon Corp.,* 54 F.2d 793 (W.D. Pa. 1931); *Wilson* v. *J. G. Wilson Corp.,* 241 F. 494 (E.D. Va. 1917). A shop right is an implied license which accrues to an employer in cases where an employee has perfected a patentable device while working for the employer. Though the employee is the owner of the patent he is estopped from claiming infringement by the employer. This estoppel arises from the fact that the patent work has been done on the employer's time and that the employer has furnished materials for the experiments and financial backing to the employee.

The rule that prevents an employee-inventor from claiming infringement against a successor to the entire business and good will of his employer is but one feature of the broad doctrine of estoppel which underlies the shop right cases. No element of estoppel exists in the present case. The license rights of Permaglass did not arise by implication. They were bargained for at arms length and the agreement which defines the rights of the parties provides that Permaglass received non-transferable, non-assignable personal licenses. We do not believe that the express prohibition against assignment and transfer in a written instrument may be held ineffective by analogy to a rule based on estoppel in situations where there is no written contract and the rights of the parties have arisen by implication because of their past relationship.

The other group of cases which the district court and Guardian found to be analogous hold that the resultant corporation in a merger succeeds to the rights of the constituent corporations under real estate leases. See, *e.g., Segal* v. *Greater Valley Terminal Corp.,* 199 A.2d 48 (Sup.

Ct. App. Div. N.J. 1964); *Dodier* v. *St. Louis National Baseball Club,* 238 S.W.2d 321 (Mo. 1951); *Pittsburgh Terminal Coal Corp.* v. *Potts,* 92 Pa. Super. 1 (1927). The most obvious difficulty in drawing an analogy between the lease cases and those concerning patent licenses is that a lease is an interest in real property. As such, it is subject to the deep-rooted policy against restraints on alienation. Applying this policy, courts have construed provisions against assignability in leases strictly and have concluded that they do not prevent the passage of interests by operation of law. *E.g., Segal* v. *Greater Valley Terminal Corp., supra.* There is no similar policy which is offended by the decision of a patent owner to make a license under his patent personal to the licensee, and non-assignable and non-transferable. In fact the law treats a license as if it contained these restrictions in the absence of express provisions to the contrary.

We conclude that the district court misconceived the intent of the parties to the 1964 agreement. We believe the district court put the burden on the wrong party in stating:

> Because the parties failed to provide that Permaglass' rights under the 1964 license agreement would not pass to the corporation surviving a merger, the Court finds that Guardian succeeded to Permaglass' license pursuant to 8 Del. C. § 259, and Ohio Revised Code §§ 1701.81 and 1701.83.
> 428 F.Supp. at 796.

The agreement provides with respect to the license which Permaglass granted to PPG that Permaglass reserved "a non-exclusive, non-transferable, royalty-free, world-wide right and license *for the benefit and use of Permaglass.*" (emphasis added). Similarly, with respect to its own two

patents, PPG granted to Permaglass "a non-exclusive, non-transferable, royalty-free right and license . . ." Further, the agreement provides that both it and the license granted to Permaglass "shall be personal to PERMAGLASS and non-assignable except with the consent of PPG first obtained in writing."

The quoted language from Sections 3, 4 and 9 of the 1964 agreement evinces an intent that only Permaglass was to enjoy the privileges of licensee. If the parties had intended an exception in the event of a merger, it would have been a simple matter to have so provided in the agreement. Guardian contends such an exception is not necessary since it is universally recognized that patent licenses pass from a licensee to the resultant corporation in case of a merger. This does not appear to be the case. In *Packard Instrument Co.* v. *ANS, Inc.,* 416 F.2d 943 (2d Cir. 1969), a license agreement provided that rights thereunder could not be transferred or assigned "except . . . (b) if the entire ownership and business of ANS is transferred by sale, merger, or consolidation, ..." 416 F.2d at 944 n. 1. Similarly, the agreement construed in *Freeman* v. *Seiberling Rubber Co.,* 72 F.2d 124 (6th Cir. 1934), provided that the license was not assignable except with the entire business and good will of the licensee.[1] We conclude that if the parties had intended an exception in case of a merger to the provisions against assignment and transfer they would have included it in the agreement. It should be noted also that the district court in *Packard, supra,* held that an assignment had taken place when the licensee was merged into another corporation.

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[1] The parties to the 1964 agreement included language almost identical to that in *Packard* and *Freeman* in a later license agreement which they executed in 1969. See note 2, *infra.*

The district court also held that the patent licenses in the present case were not transferred because they passed by operation of law from Permaglass to Guardian. This conclusion is based on the theory of continuity which underlies a true merger. However, the theory of continuity relates to the fact that there is no dissolution of the constituent corporations and, even though they cease to exist, their essential corporate attributes are vested by operation of law in the surviving or resultant corporation. *Vulcan Materials Co.* v. *United States,* 446 F.2d 690 (5th Cir.), *cert. denied,* 404 U.S. 942 (1971). It does not mean that there is no transfer of particular assets from a constituent to the surviving or resultant one.

The Ohio merger statute provides that following a merger all property of a constituent corporation shall be "deemed to be *transferred* to and vested in the surviving or new corporation without further act or deed, ..." (emphasis added). Ohio Revised Code, [former] § 1701.81(4). This indicates that the transfer is by operation of law, not that there is no transfer of assets in a merger situation. The Delaware statute, which was also involved in the Permaglass-Guardian merger, provides that the property of the constituent corporations "shall be vested in the corporation surviving or resulting from such merger or consolidation, . . ." 8 Del. C. § 259(a). The Third Circuit has construed the "shall be vested" language of the Delaware statute as follows:

> In short, the underlying property of the constituent corporations is *transferred* to the resultant corporation upon the carrying out of the consolidation or merger . . . . *Koppers Coal & Transportation Co.* v. *United States,* 107 F.2d 706, 708 (3d Cir. 1939). (Emphasis added).

In his opinion in *Koppers,* Judge Biggs disposed of arguments very similar to those of Guardian in the present case, based on the theory of continuity. Terming such arguments "metaphysical" he found them completely at odds with the language of the Delaware statute. *Id.* Finally, on this point, the parties themselves provided in the merger agreement that all property of Permaglass "shall be deemed transferred to and shall vest in Guardian without further act or deed. . ." A transfer is no less a transfer because it takes place by operation of law rather than by a particular act of the parties. The merger was effected by the parties and the transfer was a result of their act of merging.

Thus, Sections 3, 4 and 9 of the 1964 agreement between PPG and Permaglass show an intent that the licenses held by Permaglass in the eleven patents in suit not be transferable. While this conclusion disposes of the license defense as to all eleven patents, it should be noted that Guardian's claim to licenses under the two patents which originated with PPG is also defeated by Section 11.2 of the 1964 agreement. This section addresses a different concern from that addressed in Sections 3, 4 and 9. The restrictions on transferability and assignability in those sections prevent the patent licenses from becoming the property of third parties. The termination clause, however, provides that Permaglass' license with respect to the two PPG patents will terminate if the ownership of a majority of the voting stock of Permaglass passes from the 1964 stockholders to designated classes of persons, even though the licenses themselves might never have changed hands.

Apparently PPG was willing for Permaglass to continue as licensee under the nine patents even though ownership of its stock might change. These patents originated with Permaglass and so long as Permaglass continued to use

the licenses for its own benefit a mere change in ownership of Permaglass stock would not nullify the licenses. Only a transfer or assignment would cause a termination. However, the agreement provides for termination with respect to the two original PPG patents in the event of an indirect takeover of Permaglass by a change in the ownership of a majority of its stock. The fact that PPG sought and obtained a stricter provision with respect to the two patents which it originally owned in no way indicates an intention to permit transfer of licenses under the other nine in case of a merger. None of the eleven licenses was transferable; but two of them, those involving PPG's own development in the field of gas hearth technology, were not to continue even for the benefit of the licensee if it came under the control of a manufacturer of automobiles or a competitor of PPG in the glass industry "other than the present owners" of Permaglass. A consistency among the provisions of the agreement is discernible when the different origins of the various patents are considered.

III

The second issue in the case does not require detailed consideration. Guardian maintains that it was licensed to use four furnace units which are alleged to infringe the eleven patents in suit. This argument is based on an "Exclusive License Agreement" of February 24, 1969 between PPG and Permaglass which Guardian contends was an "equipment license" rather than a license for processes covered by the various patents. It argues that it was free to operate the four furnace units under either the 1964 or the 1969 agreement. PPG agrees that Guardian succeeded to whatever rights Permaglass had under the 1969

agreement,[2] but maintains that this agreement merely licensed a different group of patents relative to the "air form development," an improved method which had recently been perfected. PPG states that it is not claiming infringement of any of the "air form" patents referred to in the 1969 agreement and that rights which Permaglass acquired under that agreement afford no defense to the present infringement action.

The district court attempted to determine whether the four units operated by Guardian are "licensed furnace units" under the agreement. This involved, among other things, the necessity of trying to decipher the meaning of "and/or" as used by the parties—always a nettlesome task. However, if PPG's claim that none of the eleven patents in suit is covered by the 1969 agreement is correct, for purposes of this appeal the definition of "licensed furnace units" is immaterial. The district court did hold that the 1969 agreement was not intended to modify the 1964 agreement. This finding is fully supported by the evidence. It was the 1964 agreement which defined the rights of Permaglass with respect to the eleven patents in suit. We have held that the rights of Permaglass under the 1964 agreement terminated upon its merger into Guardian. Since the 1969 agreement was not intended to modify the 1964 agreement in any way, it cannot afford a defense as a matter of law to the claim of infringement. Though facts

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[2] It is interesting to note that the 1969 agreement and the license granted to Permaglass thereunder were not assignable by Permaglass "except to a successor to its entire business to which this agreement relates . . . ." This is significantly different from the assignability language of the 1964 agreement and indicates clearly that the parties recognized the necessity of including such an exception where they intended to relieve either party from the general provisions of non-assignability.

may be developed at trial which will require further consideration of this particular defense, the district court was correct in denying dismissal on the basis of the 1969 agreement.

The judgment of the district court is reversed on appeal and affirmed on cross-appeal, and the cause is remanded for further proceedings. Costs are taxed to Guardian.

OFFICE OF THE CLERK
UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT
CINCINNATI, OHIO 45202

JOHN P. HEHMAN, Clerk

June 1, 1979

Mr. John M. Webb
Mr. Robert B. Gosline
Mr. Richard D. Grauer
Mr. David A. Katz
Mr. Brian Sullivan

Re: Case No. 77-3166
PPG Industries, Inc., Plaintiff-Appellant,
vs. Guardian Industries Corp.,
Defendant-Appellee.
Dist. Ct. No. C72-71

Dear Counsel:

Enclosed is a copy of an order which was entered today in the above-styled case.

Very truly yours,
/s/ JOHN P. HEHMAN
Clerk
/s/ By:
(Mrs.) DOROTHY PHELAN
Deputy Clerk

NO. 77-3166

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

PPG INDUSTRIES, INC.
Plaintiff-Appellant
v.
GUARDIAN INDUSTRIES CORPORATION
Defendant-Appellee

ORDER

BEFORE: LIVELY, KEITH and MERRITT, Circuit Judges.

The defendant-appellee Guardian Industries Corporation has filed a petition for rehearing in which it contends that our opinion filed May 4, 1979 is in conflict with the decision of the Supreme Court of the United States in *Aronson* v *Quick Point Pencil Co.*, ... U.S. ...., 99 S. Ct. 1096 (1979).

Upon consideration of the opinion in *Aronson* v *Quick Point Pencil Co.* we conclude that the Supreme Court did not disturb the settled rule that the question of assignability of a patent license is a specific policy of the patent law dealing with federal patent rights to which federal, rather than general contract law, applies. See *Unarco Industries, Inc.* v *Kelley Co.*, 465 F.2d 1303, 1306 (7th Cir. 1972).

The petition for rehearing is denied.

ENTERED BY ORDER OF THE COURT
/s/ JOHN P. HEHMAN,
Clerk

In the Supreme Court of the United States

October Term, 1979

No. 79-336

GUARDIAN INDUSTRIES CORPORATION,
Petitioner,

v.

PPG INDUSTRIES, INC.,
Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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GUARDIAN INDUSTRIES CORPORATION,

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Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

I. INTRODUCTION

The petition in this case does not present a question within the *certiorari* jurisdiction ordinarily exercised by this Court; and no facet of this ordinary patent infringement case warrants review by this Court.

None of the considerations governing review on *certiorari* set forth in Rule 19 is applicable here. The decision below is not in conflict with a decision of another Court of Appeals on the same matter or in conflict with applicable decisions of this Court or in conflict with state law. There are no "special and important reasons" for review and there is nothing calling for an exercise of this Court's power of supervision.

The Court of Appeals below merely held that Guardian's license defense to this ordinary patent infringement action was without foundation because the agreement between PPG and Permaglass on which the license defense is predicated contained explicit language precluding transfer to Guardian, by operation of law or otherwise, of Permaglass's non-exclusive licenses and that the intent of the parties that the licenses to Permaglass were personal and non-transferable was clear from the agreement. Hence, whether federal or state law governs patent licenses is totally immaterial since, under both, the clear language of the agreement expressing the intent of the parties is controlling.

II. QUESTION PRESENTED

The question posited by petitioner is not present in this case. There are express provisions in the 1964 license agreement which are preclusive of any transfer by operation of law or otherwise. Section 3.3 of the 1964 agreement expressly says that the license reserved by Permaglass under the Permaglass patents is "non-transferable" and "for the benefit and use of PERMAGLASS." Section 4.1, as to the PPG patents, says that the license is "non-transferable" and Section 9.2 says that the agreement and the license granted to Permaglass under the PPG patents was "personal to PERMAGLASS." The question posited also overlooks the fact that the license under the PPG patents terminated irrespective of merger or any attempted transfer because the majority of the voting stock of Permaglass did, in fact, become owned and controlled directly by Guardian, a manufacturer and fabricator of glass, as expressly prohibited in Section 11.2 (Pet. App. 53).

Petitioner's statement as to the Court of Appeals' holding is not correct. The Court did not hold that federal common law pre-empts state merger statutes. That Court held

(Pet. App. 50, 51, 53) that there was express language in the agreement showing that the intent of the parties was that the licenses of Permaglass be not transferable by operation of law or otherwise and that such intent must be given effect.

III. STATEMENT OF THE CASE

Petitioner's Statement of the Case does not accurately set forth the nature of the proceedings below or the holdings of the Court of Appeals.

The controversy resides in the transferability of certain patent rights under a 1964 Patent License Agreement. Patents and patent applications were owned by both PPG and Permaglass, Inc. relating to a novel air float method of annealing and tempering glass. The 1964 License Agreement was the result of the parties' negotiations as to the respective rights in the process. By that Agreement Permaglass, Inc. granted PPG an exclusive license (tantamount to an assignment) under Permaglass patents and applications reserving to itself a non-exclusive, non-transferable license. PPG granted to Permaglass a non-exclusive, non-transferable license under PPG patents and applications. The Agreement was very specific regarding the transferability of those rights. With regard to the non-exclusive license Permaglass retained in patents originating at Permaglass, the Agreement provides:

> "3.3 The licenses granted to PPG under Subsections 3.1 and 3.2 above shall be subject to the reservation of a non-exclusive, *non-transferable*, royalty-free, worldwide right and license for the benefit and use of PERMAGLASS.*

*Emphasis ours throughout unless otherwise noted.

* * * *

"9.2 This Agreement and the license granted by PPG to PERMAGLASS hereunder shall be *personal* to PERMAGLASS and *non-assignable* except with the consent of PPG first obtained in writing."

With regard to the non-exclusive license PPG granted to Permaglass under PPG patents and applications, the Agreement states:

"4.1 PPG hereby grants to PERMAGLASS a non-exclusive, *non-transferable*, royalty-free right and license....

* * * *

"11.2 In the event that a majority of the voting stock of PERMAGLASS shall at any time become owned or controlled directly or indirectly by a manufacturer of automobiles or a manufacturer or fabricator of glass other than the present owners, the license granted to PERMAGLASS under Subsection 4.1 shall *terminate* forthwith."

Five years later Permaglass was merged into Guardian, a fabricator of glass. Under the Agreement of Merger "... all rights, privileges, powers, franchises, and interests of Permaglass ... shall be deemed transferred to and shall vest in Guardian ..." The Permaglass stock was acquired by Guardian and Permaglass ceased to exist.

PPG brought this suit against Guardian for infringement of the patents covered by the 1964 License Agreement. Guardian asserted it acquired the non-transferable license rights as a result of the merger.

The District Court recognized that PPG had the power to restrict passage of license rights via a statutory merger but held that the foregoing provisions did not show an intent to do so (Pet. App. 24). The Court of Appeals reversed.

After referring to the express prohibitions against transfer contained in Sections 3, 4 and 9 of the 1964 agreement (Pet. App. 43-44), the Court below stated (Pet. App. 51):

"The quoted language from Sections 3, 4 and 9 of the 1964 agreement evinces an intent that only Permaglass was to enjoy the privileges of licensee."

The Court further stated (Pet. App. 53):

"Thus, Sections 3, 4 and 9 of the 1964 agreement between PPG and Permaglass show an intent that the licenses held by Permaglass in the eleven patents in suit not be transferable. While this conclusion disposes of the license defense as to all eleven patents, it should be noted that Guardian's claim to licenses under the two patents which originated with PPG is also defeated by Section 11.2 of the 1964 agreement."

The Court further held (Pet. App. 51):

"We conclude that if the parties had intended an exception in case of a merger to the provisions against assignment and transfer they would have included it in the agreement."

Again, after discussing the Ohio merger statute which provides that, following a merger, all property of a constituent corporation shall be "deemed to be *transferred* to and vested in the surviving or new corporation without further act or deed,..." the Court (Pet. App. 52-53) pointed out that the parties themselves had provided in the merger agreement that all property of Permaglass "shall be deemed transferred to and shall vest in Guardian," and stated:

"A transfer is no less a transfer because it takes place by operation of law rather than by a particular act of the parties. The merger was effected by the parties and the transfer was a result of their act of merging."

Finally, the Court below, after considering the shop-right cases, expressly held (Pet.App. 49):

> "We do not believe that the express prohibition against assignment and transfer in a written instrument may be held ineffective by analogy to a rule based on estoppel in situations where there is no written contract and the rights of the parties have arisen by implication because of their past relationship."

In short, the Court below held that the intent of the parties was clear from the express provisions of the agreement and that it was that the licenses of Permaglass were not transferable by operation of law or otherwise. This is, of course, controlling irrespective of whether considering state law or federal law because it is hornbook law that it is the intent of the parties which is controlling in regard to the construction of an agreement.

Petitioner asserts (Pet. 6) that the license "contained neither an express restriction against . . . another company succeeding to Permaglass' rights as a result of the statutory merger *or by operation of law.*" This is incorrect. The Court below held that Sections 3, 4 and 9 of the 1964 agreement contained express words precluding a transfer by operation of law. Sections 3 and 4 expressly used the term "non-transferable" which has a definite meaning in the law and has been interpreted by this Court and others as being an all inclusive term describing any and all means involving the passage of property or rights: *Pirie v.Chicago Title and Trust Co.*, 182 U.S. 438, 444 (1901); *Bouvier's Law Dictionary* (1928), p. 1185; *Black's Law Dictionary* (1968), p. 1669; *The W. T. Rawleigh Co. v. McCoy*, 96 Ore. 474 (1920); and *Kramer v. Spradlin*, 148 Ga. 805 (1919).

Although the Court below did state (Pet.App. 47) that the assignability of a patent license is cotrolled by federal law and that it has long been held by federal courts that agreements granting patent licenses are personal and not assignable unless expressly made so, citing *Unarco Industries, Inc. v. Kelley Company*, 465 F.2d 1303, 1306 (7 Cir., 1972), Cert. Den. 410 U.S. 929 (1973), that was not the basis for the Court's decision. The basis for the Court's holdings was that the agreement in question contained express prohibitions against a transfer of the Permaglass licenses by operation of law or otherwise and that the intent of the parties in this regard was clear from the express language used in the agreement.

IV. REASONS FOR DENYING THE WRIT

The petition for a writ should be denied for the following reasons:

1. None of the considerations governing review on *certiorari* set forth in Rule 19 is applicable here.

2. Contrary to petitioner's assertion, the decision below does *not* conflict with state statutory law relating to the transfer of property rights in case of mergers because express provisions in Sections 3, 4 and 9 of the 1964 agreement prohibited transfer of the licenses of Permaglass by operation of law or otherwise. Moreover, under state law as well as under federal law, it is the intention of the parties which is controlling in the construction of agreements, including patent license agreements. As to the controlling effect of the intent of the parties as expressed in the agreement, see: *Blosser v. Enderlin*, 113 Ohio St. 121, 148 N.E. 393 (1925); *First National Bank v. Houtzer*, 96 Ohio St. 404, 117 N.E. 383 (1917); *Hillbrook Apartments, Inc. v. Nyce Crete Co.*, 237 Pa. Super. 565, 352 A.2d 148 (1975); *Leist v. Schattie*, 197 Pa. Super. 456, 179 A.2d 277 (1962); *Hajoca Corp. v. Security Trust Co.*, 41 Del. 514, 25 A.2d 378 (1942); *Pope v. Landy*, 39 Del. 437, 1 A.2d 589 (1938); *F. D. Rich Co. v. Wilmington Housing Authority*, 392 F.2d 841, 842, (3 Cir., 1968).

3. The decision below does not in any way conflict with decisions of this Court, including this Court's recent decision

in *Aronson v. Quick Point*, 99 S.Ct. 1096 (1979). The *Quick Point* case is inapposite. Petitioner's argument presupposes that there is some conflict between federal law and state law. There is no such conflict in this record. The decision below is based squarely on well-established principles of contract law which are applied uniformly and consistently in state courts and federal courts—namely, that the intent of the parties governs the interpretation and application of a written agreement. The decision below was not based on any federal pre-emption of the field and does not conflict with any state law or state policy.

Petitioner's argument assumes that there is some state policy that requires all property of constituent corporations to be trasnferred to the surviving corporations (Petition, p. 12). No authority is cited for that proposition. The state statutes involved do not "require" such a transfer. The state merger statutes do not purport to override express written contracts of a constituent corporation which prohibit transfer of certain property. As stated above, the statutes merely provide the *modus operandi* by which transferable property is vested in the surviving corporation.

V. CONCLUSION

We respectfully submit that the petition for a writ of *certiorari* in this case should be denied.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

No. 79-336

GUARDIAN INDUSTRIES CORPORATION,
Petitioner,
vs.
PPG INDUSTRIES, INC.,
Respondent.

PETITIONER'S REPLY BRIEF IN SUPPORT OF ITS PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

No. 79-336

GUARDIAN INDUSTRIES CORPORATION,
Petitioner,
vs.
PPG INDUSTRIES, INC.,
Respondent.

PETITIONER'S REPLY BRIEF IN SUPPORT OF ITS PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

The "Question Presented" by this Petition is whether a federal common law rule that patent licenses are non-assignable, unless expressly agreed to the contrary, should pre-empt state corporate merger statutes providing that all rights of the constituent corporations shall vest in the corporate survivor of the merger unless specifically precluded.

This legal issue is clearly within this Court's certiorari jurisdiction, for the decision of the Court of Appeals below conflicts with (1) prior decisions of this Court on the legitimate role of state law in commercial transactions involving patents (Pet. Br. 11-14) and (2) applicable state statutes as interpreted by the Supreme Court of Pennsylvania, the state whose law the parties selected as controlling (Pet. Br. 9-10).

Respondent asserts that this case presents no question within this Court's certiorari jurisdiction because it allegedly involves only the Court of Appeals' holding that the license agreement in issue "explicitly" precluded vesting of the patent license rights in the survivor of a statutory merger by the original licensee. Such assertion is in error for two reasons. First, the actual language of the agreement, that the license rights are "non-assignable" and "non-transferable", has been held insufficient to prevent vesting by statutory merger or by operation of law by the Pennsylvania Supreme Court (Pet. Br. 9-10).

Secondly, the Court of Appeals below premised its interpretation of the license contract on its statement that "Questions with respect to the assignability of a patent license are controlled by federal law" (Pet. App. 47). This old federal common law rule, of doubtful viability in the light of this Court's recent *Quick Point* and *Burks* decisions (Pet. Br. 11-12), is simply not applicable to a statutory merger because this Court held in the *Seattle Bank* case that rights pass in a merger by operation of law rather than by assignment (Pet. Br. 10).

The Court of Appeals applied the inapt federal common law rule to distinguish the analogous cases on the principal issue and to conclude that patent license rights are *sui generis,* subject to different policy considerations than other property rights. The decision below makes patent license rights an unwritten exception to state merger statutes requiring that all rights and property of the constituent corporations shall vest automatically in the corporate survivor.

After distinguishing the cases holding that "non-assignable" and "non-transferable" restrictions are insufficient to prevent vesting by statutory merger, the Court of Appeals held:

> "We conclude that if the parties had intended an exception in case of a merger to the provisions against assignment and transfer they would have included it in the agreement". (Pet. App. 51).

In the name of implementing the parties' intent, the Court in effect held that their silence as to merger is to be construed as evidencing their intent to nullify the applicability of the state statutes controlling such uncontemplated merger. It would seem that the mere statement of such a rule demonstrates the anomaly of the result reached here. Businessmen and lawyers have a right to expect that state merger statutes mean what they say, covering *all* property and rights, including patent license rights, unless the parties expressly agree to the contrary.

Finally, we note that when the Court of Appeals did look for the intent of the parties, it reached a conclusion exactly opposite to that of the District Court, who heard the testimony of the license signatories from both PPG and Permaglass (both hostile to Petitioner Guardian at the time of their testimony) and concluded that the parties did not intend to preclude passage of the license rights by statutory merger. Compare the Court of Appeals' conclusion as to intent (Pet. App. 50-51, 53) with that of the District Court (Pet. App. 25).

Therefore, Petitioner submits that this case is not, as Respondent would have this Court believe, a mundane case of merely divining the intent of the parties to a contract. Rather, as stated in Petitioner's "Question Presented", the case involves a delicate threshold issue of the legitimate role of state statutory law controlling a commercial transaction involving patent license rights.

Petitioner respectfully submits that the writ of certiorari should be granted.

Respectfully submitted,
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